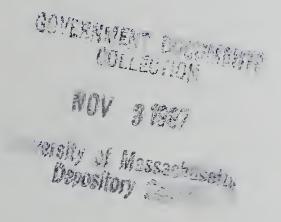
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Starting a

NEW BUSINESS in Massachusetts



All the Basic Facts

You Need to Know



THE COMMONWEALTH OF MASSACHUSETTS EXECUTIVE DEPARTMENT

STATE HOUSE . BOSTON 02133

Dear Friends:

The Future of Massachusetts depends on a sound economy. Over 110,000 Massachusetts small businesses contribute to this economy through job creation, productivity, and innovation.

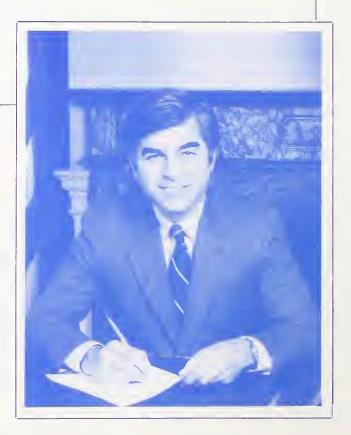
Massachusetts needs the new products, services and jobs small business creates for our citizens. We, as a state, also have a lot to offer entrepreneurs who start new ventures. "Starting a New Business in Massachusetts" is one of the many sources of information and support available from the Massachusetts Small Business Assistance Division.

We want you and your new business to succeed and we hope that this handbook assists you in your new endeavor.

Sincerely,

Michael S. Dukakis

Governor



Starting a NEW BUSINESS

in Massachusetts

All the Basic Facts You Need To Know

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Is Running a Business Right For You?

s running a business the right thing for you to do?

How does one start a business?

First, you have to take inventory of yourself. Are you the type of person who would make a good entrepreneur?

Research has shown that a successful entrepreneur is typically a person who is happy working on his/her own. There are many lonely decisions to make in running a business. One does not find out whether these are good decisions or bad decisions until weeks or months later. Risks are taken and it can be pretty lonely waiting to see what happens.

A person who hates to be bothered with details does not make a good entrepreneur. There are many details involved in starting a business. The entrepreneur has to enjoy planning, organizing, anticipating difficulties, and developing ways of working around obstacles. A good indication of a person's organizational ability is whether he/she has a good record of getting things done on time.

To be successful, an entrepreneur has to be a leader. He/she has to be able to work effectively with employees, customers, suppliers, and the general public in order for the business to succeed. A good entrepreneur inspires trust in others.

Having a firm grip on reality is another indispensable quality in a business-person. We often describe a person possessing this quality as one who "has good common sense". He/she is not the kind of person who tends to distort, exaggerate or minimize a situation.

If you have decided that you are the type of person who would make a good entrepreneur, then you should begin to ask whether there is a market for your product or service. In other words, are there enough people who want your service or product where you are going to sell it, the way you are going to sell it, and at the price you are going to sell it? Remember, this market may be seasonal (for example, ice-cream or skis), with most sales concentrated in certain months of the year. In this case, you will have to think about how you are going to survive the rest of the year. You should also ask whether this market is a growing one or a declining one. You don't want to enter an industry which is dying. One way to find out more about the market is to study your potential competitors. If they are doing very well, you probably have a good chance of doing well. Then, of course, you have to think about how you are going to compete for customers whether by advantage of location, price, flexibility, image, or extra service.

Speaking of the marketplace, you should realize that selling consumer products is much more difficult than selling a product or service to business. Over the period of years, consumers have built up brand loyalties and shopping habits, which are very hard to change, and make it very difficult for a new business. When selling to businesses or to governments, you are competing primarily on price, quality and service—factors which are much easier to control.

Having decided that you are an entrepreneur, and that you have a market, you then should ask yourself whether the present is a good time to start your business. Are all your personal affairs in good order? Do you have a basic knowledge of accounting and financial management? Do you have a thorough knowledge of the business you are going into? Are you willing to make the commitment of time and effort that a new business requires?

If you have decided that running a business is right for you, this handbook will provide the basic information you need to start.

What's in a Business Name?

ne of the most significant decisions you must make in setting up a new business is choosing a name. Your name is one of your most important business assets and should be chosen carefully. The following information describes three types of business names, outlines the research you should do before choosing a name, and defines filing requirements as well as how to register a service or trademark.

What is the difference between a trade name and a trademark? Before you select your business name you need to understand how the kinds of business names differ. Names fall into three categories:

TRADE NAMES identify a company, e.g., the "Coca Cola Company" or "Computaire Services". Any type of business may call itself a company.

CORPORATE NAMES identify corporations, e.g., "Cabot Corporation" or "Marketing Concepts, Inc." The words "Incorporated", "Corporation" or "Limited" or their abbreviations, must appear in a corporate name and may not appear in the name of an unincorporated company.

TRADEMARKS are any word, name, symbol or device, or any combination of these used to identify the goods of a business and distinguish those goods from the products of others. For example, the word "Kleenex" is a trademark. Similarly, there are service marks which may be used to identify and distinguish a business which provides a service rather than goods. For example, the word "Greyhound" is a service mark for transporation services.

Before You Choose Your Name

When choosing a name for your business you might want to begin by looking at types of names that are already being used by businesses similar to your own. There are several sources of such information. You can find lists of business names at the Corporations Division of the Secretary of State, your local city or town hall, in the library, in relevant trade journals and even in the telephone book.

As you are considering possible names you must take care to choose a name that is not already being used by another business. Do everything you can within reason, to assure that yours will be the only business of that type using a particular name.

If you decide to incorporate your business, you may contact the Corporations Division to reserve the name you choose for statewide use. A corporate name may not be reserved by a telephone request. The reservation of a name for 30 days becomes effective only upon written request to the Corporations Division and payment by of a \$10.00 fee. Upon payment of an additional \$10.00 fee the reservation may be extended another 30 days.

What can you do if another corporation is using the name you want to choose?

You will be prohibited from using a name if another corporation is already using it or one that is very similar. An exemption may be made if you are able to obtain a letter of consent from the other corporation giving you permission to use the similar name.

After You Choose Your Name

hat you must do after you have chosen a name for your business is largely determined by the type of business you have set up. Use the following chart as a check list to determine (1) whether you must file organizational forms with the state, and (2) whether you must file a business certificate in your local community. Remember that many businesses are regulated and that you may need to apply for state and/or local permits or licenses before you begin.

The column labeled "DBA at Local City or Town Hall" refers to a local filing known as a business certificate. This is also called a "dba" which stands for "doing business as". Your business must file a business certificate, or "DBA", at the city or town where you maintain an office. The fee for this filing is \$17.50. The only case in which you do not have to file a "dba" is when you are doing business as a sole proprietor under your own complete name, such as "John Smith Company".

Your filing of a business certificate at the local level does not protect your name as does a corporate filing or a trademark registration. A business certificate primarily allows consumers and/or creditors to identify the names of the actual owners of a business. Therefore, a city or town clerk may even accept more than one certificate with an identical business name in order to provide this public record.

Required Filings After Your Name is Chosen

A series of the					
Type of Business	Required State Forms	Filed with Secretary of State	*DBA at Local City or Town Hall		
Corporation	Articles of Organization	XX	XX		
General Partnership			XX		
Limited Partnership	Certificate of Limited Partnership	XX	XX		
Business Trust	Declaration of Trust	XX	XX		
Sole Proprietorship (with a different name than owner, e.g., Century Co.)			XX		
Sole Proprietorship (doing business under owner's complete name, e.g., John Smith Co.)					

^{*}DBA—Business certificate known as "doing business as" (see above).

For further information call the Corporations Division of the Secretary of State, (617) 727-9640. The address is: One Ashburton Place, 17th Floor, Boston, MA 02108.



Should You Incorporate?

ne of the myths about business is that corporations are big companies. Not true. The same person can be the president, treasurer and clerk of the corporation. The only requirement in Massachusetts is that the person designated to be the clerk has to be a resident of the State.

Sole Proprietorship, Partnership, Corporation

The **SOLE PROPRIETORSHIP** is the simplest form of business. To form a single proprietorship, you just have to let people know that you are in business and file a form in the city or town where you are going to do business. You personally are responsible for all debts and other legal liabilities of your business. The income from your business is reported to the IRS as part of your personal income and taxed accordingly.

A **PARTNERSHIP** is formed when two or more people decide to go into business together. In a partnership each partner is totally liable for whatever happens to the business, and for whatever the other partner does. A "limited" partner is liable only for the amount of money he/she invests in the business, but there must be at least one general partner who is liable for the total. Income from a partnership is reported to the IRS as part of each partner's personal income and taxed accordingly.

In creating a **CORPORATION**, you are creating a legal entity. From then on, your business has an identity of its own. It has certain rights. It can sue and be sued. It has to file its own tax returns, etc. The ownership of a corporation is divided into "stocks" which are sometimes called "shares". The owners are called "stockholders". One person can own all of the stocks, in which case, there is only one stockholder. A stockholder meeting has to be held at least once a year to decide how to manage the company and what to do about profits or losses. The profits can be reinvested in the business or distributed among the stockholders as "dividends". Control and profit division is proportional to the stocks held. The person who has 51% of the stocks will have 51% of the dividends.

Sub-Chapter S Corporation

A Sub-Chapter S Corporation is a legal entity that pays no income tax. That is, the stockholders elect to report corporate profit or loss on their individual income returns. A Sub-Chapter S Corporation must have no more than 35 stockholders, none of whom can be a corporation, and all of whom must give their consent; no shareholder can be a non-resident alien individual; the corporation can have only one class of common stock; and no more than 25% of gross receipts can be derived from investments, i.e., dividends, interest, rent, capital gains, etc. A Sub-Chapter S Corporation is a formalized and regulated form of business entity, therefore, the employment of legal or accounting counsel is advisable.

A Corporation? Issues to Consider

Limited Liability—If your business is a corporation, your liability is only limited to the amount of the assets in your business (except in the case of a loan for which you offer your personal guaranty). Therefore creditors and plaintiffs in lawsuits cannot make claims upon your personal assets.

Ease of Raising Capital and Transferability—Since owners of a corporation are liable only for the amount they invest, it is much easier to convince other people to invest in the business in exchange for a certain percentage of the profit. If one of the owners wants to pull out, all they have to do is find someone to buy their share of the business. If any one of the owners dies, his/her heirs inherit that share of the business. There is no interruption in the day-to-day operation of the business.

Ease of Separating Ownership from Management—The owners (or stockholders) of a corporation can decide they don't want to run the business themselves. They may decide to hire a professional manager to run it. If they do not like the manager, they can call a board meeting and replace that person. The line between ownership and management can be clearcut.

Taxes—The tax rates differ for corporations and other forms of business. An accountant can recommend how you can set up your business to get the most tax advantages.

Costs—It takes \$400—\$1,000 to get incorporated. This includes filing and lawyers' fees. There are some additional costs in doing business because you will be subjected to some regulations that cover corporations and not other forms of business.

Before entering into any one of these business structures you should seek legal and accounting advice.



Lawyers & Accountants

he best way to find a good lawyer or a good accountant is to ask someone who is in business, preferably in your line of business, to recommend one. It is important that you feel comfortable with this person and confident in their ability to serve your best interests. If you do not feel satisfied with one person, speak with others until you find someone with whom you can work well.

Lawyers

Lawyers can help you:

Decide on a legal form of organization.

Draft your corporation papers and file them for you.

Prepare partnership agreements for you.

Obtain licenses, especially food, liquor licenses, and DPU rights.

Review and negotiate your lease.

Review and negotiate the purchase-sale agreement if you are buying a business or franchise.

Review various laws and regulations to see which sections apply to your business.

Accountants

Accountants can help:

Set up a good recordkeeping system for your business.

Give you a financial evaluation of the business you are buying, and obtain a Dun and Bradstreet credit report on that company.

Project your profit and your cash flow.

Prepare periodic financial statements to give you important information about your business.

Prepare your tax returns and advise you on tax planning.



elow is a list of business taxes you should be concerned about, although some of them might not apply to your particular business.

Department of Revenue — Commonwealth of Massachusetts

Employee Withholding	727-4331
Tax Resale	727-4490
Estimated Withholding	727-4483
Meals Tax	727-4488
Corporation Income Tax	727-4264
Individual Tax	727-4545

Taxpayer's Assistance 100 Cambridge Street Boston, MA 02204 Toll-free information 1-800-392-6089

Federal Taxes

Federal Unemployment lax	Contact your local IRS office.				
Federal Corporation Income Tax					
Federal Tax Forms Only	1-800-424-3676				
Federal Tax Information	523-1040				

Insurance

elow is a list of insurance coverages you might consider. They are listed in their order of importance:

Worker's Compensation Mandatory

Automobile Insurance Mandatory

Liability Insurance Essential

Fire Insurance Essential

Business Interruption Insurance Desirable

Crime Insurance Desirable

Group Life Insurance for You and Your Employees

Group Health Insurance for You and Your Employees

Disability Insurance for You and Your Employees

Key-Person Insurance

Fidelity Bond

Consult a highly recommended underwriter for your insurance coverage.

A booklet called "Insurance Checklist for Small Businesses" (#148) is available free from the U.S. Small Business Administration by calling 565-5590.

Financing Sources

financing) or the sale of a share of your business (equity financing).

Conventional Funding

Conventional Bank Loan: For a new venture you need a good business plan and at least 25–35% of the needed capital and collateral. Contact any commercial bank.

Other Conventional Sources: Finance companies (usually high interest), credit unions (for small amounts), re-mortgaging of your home, loan against life insurance, loan secured by accounts receivable (factoring), loan against inventory, credit cards, friends and relatives.

State Funding

The Massachusetts Department of Commerce and Development's Office of Financial Development is available to assist companies by dispersing information on financial sources, private and public. The office provides advice directly to firms seeking capital, functions as a liaison with the financial community, evaluates actual proposals for financing and will aid in the structuring, packaging and negotiating of financing for client companies.

For further information on financing programs contact the Massachusetts Department of Commerce for a Financial Resources Directory at 727-3206.

For fixed assets in Massachusetts, you might be able to take advantage of the Massachusetts Industrial Finance Agency (MIFA), a public program that guarantees loans and mortgages, as well as issues tax free and taxable industrial development bonds for land, buildings and equipment of businesses, that meet certain criteria. MIFA is especially interested in manufacturing, recreational, warehousing, or research and development enterprises. MIFA also administers the Seafood Loan Fund which provides flexible, below market, fixed rate financing for companies engaged in the shipping, processing, freezing, storing, packaging and distribution or marketing of seafood products.

Another fund administered through MIFA is the Child Care Loan Fund, which provides direct loans to smaller companies, consortia of companies and non-profit organizations to be used for acquisition, renovation, construction, site planning and/or permanent installed equipment for a child care facility. Call MIFA at 451-2477.

Thrift Institutions Fund for Economic Development provides funding for industrial plant and equipment loans, working capital and commercial and or residential projects. Applicants should view the Thrift Fund as a supplement to, rather than a substitute for conventional financing. For more information call The Thrift Fund at 227-0404.

Industrial Services Program—Economic Stabilization Trust Fund (EST) provides funding for companies in mature industries which face permanent layoffs of plant closings. Loans are made when financing from conventional lenders is insufficient or unobtainable. For more information call EST at 727-8158.

The Massachusetts Technology Development Corporation (MTDC) is a publicly funded but independently operated venture capital organization. The purpose of MTDC is to provide capital to new and expanding high technology companies which have the capacity to generate significant employment growth in Massachusetts. Call MTDC at 723-4920 for further information.

The Massachusetts Capital Resource Company (MCRC), is privately funded by domestic life insurance companies to provide unsecured loans in the form of debt and equity financing to small and medium sized firms which are unable to secure comparable financing from other services. Contact MCRC at 536-3900.

Federal Funding

SBA Guaranteed Bank Loan: For a new venture you will need a good business plan and at least 25% of the needed capital and collateral. Contact any commercial bank.

The SBA 504 program uses local development companies to provide long-term financing for fixed assets with a useful life greater than 15 years. For further information contact the group which covers the area where you intend to build the project. Contact: SBA/Finance Division at 565-5581.

Venture Capital

Selling Part of the Business to a Venture Capital Company: Venture capital companies seek an annual return of 35% or more on their business. But a venture capital company supported by SBA, called SBIC, is slightly less stringent. A SBIC specializing in Minority Businesses is called a MESBIC. For information about other SBIC's or MESBIC's, call SBA at (202) 653-6584; or write:

SBA Investment Divisions 114 "L" St. N.W. Washington, D.C. 20417

Elements of a Good Financing Proposal

hat kind of information should you have with you when you go to talk with the banker or other financiers?

- 1. Information about your proposed market: who your customers will be, why they will buy from you, how you are going to attract them.
- 2. Information about the operation: location, hours, staffing.
- 3. Information about yourself: what qualifies you to run the business (a resume should help); what is your personal financial situation.
- 4. A list of the start-up costs (it will help if you have quotes from vendors or suppliers of major equipment).
- 5. Reasons why you need financing: how you are going to use the money.
- 6. A beginning "Balance Sheet"—showing what you will own (assets), what you will owe (liabilities), and what is the balance (net worth) on the first day of business—assuming that the financing is approved.
- 7. A "Proforma Cash-Flow Statement"—showing how much cash you expect to flow into the business and how much cash you expect to flow out of the business, and for what reasons, for each of the next twelve months. Some financiers may ask for projection for two years.
- 8. A "Proforma Income Statement"—showing how much profit you expect to make at the end of a year. (This is calculated by subtracting all the expenses from sales). Again you may be asked for two years' projection.
- 9. If you are buying a business, the income statement of the business for the last few years, information on why it is being sold, and why you will be able to make it profitable.
- 10. Some information on your business plan 12 and 24 months from now.

A good financial proposal takes time, research and thoughtful consideration. You probably want to consult an accountant to check over your figures before you submit the proposal. The proposal will be judged according to the soundness of the business idea, whether the projections are realistic, and whether it is in line with the investment philosophy of that particular banker or organization. A judgment is also made on whether he/she is confident in your ability as an entrepreneur.



Sources of Information

State Government

Department of Commerce

100 Cambridge Street Boston, MA 02202 The fundamental purpose of this department is to help business to create and to maintain jobs. To achieve this goal, there are several specific functions:

Small Business Assistance Division

617-727-4005

The SBAD provides one-stop, comprehensive assistance for small business, including technical, management, and financial advice to those wishing to start a small business as well as to those who are already in business.

State Office of Minority and Women Business Assistance

617-727-8692

SOMWBA provides special assistance to women and minority-owned businesses.

S.I.T.E.

617-727-3215

Provides assistance in locating available industrial buildings and sites.

Office of

Financial Development

617-727-3048

Helps businesses find funds for development, and expansion.

Massachusetts Matching Service

617-727-3206

A database service to link suppliers and manufacturers in the Commonwealth.

Marketplace Service

617-727-3206

Monitors and forecasts the State economy, and analyses industrial markets to determine the feasibility of starting or expanding a small business.

"SPIRIT" Business Line

1-800-632-8181

A toll-free, direct hot-line service to answer business related questions.

Department of Labor and Industries

100 Cambridge St. Boston, MA 02202

Taxpayer Assistance Bureau 100 Cambridge Street, 2nd floor

Boston, MA 02204

Income Tax Information: 727-4545 Income Tax Refunds: 727-4471 Withholding: 727-4331 Estimated Tax Notices: 727-4545 Sales and Use Tax: 727-4490 Sales Tax on Meals: 727-4488 Room Occupancy Tax: 727-4488 Corporate Excise Tax: 727-4271

Statewide toll-free: 1-800-392-6089

Alcoholic Beverages Excise: 727-3079

Cigarette Excise: 727-3081

Division of Employment Security

Charles F. Hurley Building Government Center Boston, MA 02111

Division of Insurance

100 Cambridge St. Boston, MA 02202

Division of Registration

100 Cambridge St. Boston, MA 02202

Industrial Accident Division

100 Cambridge St. Boston, MA 02202

For Massachusetts wage and hour laws, call 727-3476.

For health and safety requirements call 727-3460.

The Taxpayer Assistance Bureau answers questions on the Massachusetts income tax, including refunds, withholding, and estimated income tax notices. The bureau also provides assistance relative to sales and use taxes, the sales tax on meals, the room occupancy tax, and the corporate excise tax. It issues sales tax vendor numbers to businesses authorizing them to collect the state sales tax. This bureau also provides information and proper applications to new businesses for the withholding of employees' income taxes.

For unemployment insurance information, call 727-6560.

For information on labor market, call the Director of Labor Market Research at 727-6556.

For assistance in finding employees, call your local DES job center, Office of the Ombudsman 727-8660, or 1-800-322-4944.

For information and complaints about automobile, fire, and other insurance rates and claims, call the Consumer's Service Section at 727-3341, or 727-3333.

For state permits and licenses, call 727-3076.

For information about workmen's compensation insurance, call 727-3407.

Federal Government

Small Business Administration

10 Causeway Street 2nd Floor, Room 265 Boston, MA 02222 For "Pre-Business Workshop" and direct consultation, call the Management Division at 565-5590.

For loan guaranty program and SBA sponsored equity financing, call the Finance Division at 565-5627.

For assistance in selling to the federal government, call the Procurement and Technical Assistance at 565-5588.

For Free of Charge Counseling assistance to small business owners call SCORE (the Service Corps of Retired Executives) at 565-5591.

Department of Labor JFK Federal Building Boston, MA 02203 For wage and hour laws, call the Wage and Hour Division at 223-6751.

For health and safety requirements, call OSHA at 223-6712.

Internal Revenue Service JFK Federal Building Boston, MA 02203 For the "Business Tax Seminar" and for simple questions, call 565-1645.

For tax forms and Tax Guide for Small Business, call 1-800-424-3676.

U.S. Department of Commerce World Trade Center Room 307 Boston, MA 02210 For export assistance, call the International Trade Division at 565-8576.

For demographic and economic surveys, call Census Bureau at 565-7200 or Massachusetts Secretary of State Office at 727-2846.

Government Bookstore JFK Federal Building Boston, MA 02203 For Federal publications, call 565-2488/State Publications 727-2834.

For general information at the Federal level, call (617) 223-7121.

Massachusetts Small Business Development Center

The Massachusetts Small Business Development Center (MSBDC) is part of a nationwide program established to provide high-quality management/technical assistance and education and training to small business owners. The coordination of resources from federal, state and local government, the academic community and the private sector makes this a unique service.

The University of Massachusetts/Amherst, School of Management, is the lead institution of a consortium of universities and colleges that house an SBDC. These are the University of Lowell, Boston College, Southeastern Massachusetts University, Clark University, Salem State College and Roxbury Community College.

Each Regional Center provides the basic SBDC services of one-to-one management/ technical assistance and sponsors educational programs for small business in a given geographical region. These services are provided by full-time staff and utilization of public and private sector resources. Referrals to an SBDC are made by the Small Business Assistance Division 727-4005.



Commonwealth of Massachusetts

Michael S. Dukakis, Governor Joseph D. Alviani, Secretary of Economic Affairs

Small Business Assistance Division 100 Cambridge St., Boston, Ma. 02202

(617) 727-4005

